

**GOVERNMENT
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Agenda Item 14
MasterCard International
Board of Directors
March 21, 1996

**Competitive Threats Posed by American Express
H. Eugene Lockhart, President and Chief Executive Officer**

TOPIC

Discuss the potential impact of recent developments in American Express activities worldwide.

BACKGROUND

Recent events initiated by AMEX have the potential to change the competitive landscape faced by MasterCard members.

These events include, but are not limited to, the following:

- AMEX aggressively soliciting MasterCard members in all regions, offering an alternative brand solution in members' card portfolios
- AMEX card strategies that encroach into traditional bankcard positioning:
 - Revolving Credit Cards (Optima True Grace)
 - T&E-oriented co-branded cards (Delta Sky Miles, Hilton)
- Growth into selected international markets by partnering with local banks (many of whom are MasterCard members) to issue AMEX cards in local currencies:
 - Reported to have 10 card-issuing agreements with banks and non-banks
- Reports that Visa's Board could pass a by-law prohibiting its members from issuing competitive brand card products
- Rumors of merger discussions between a major financial conglomerate and AMEX

ANALYSIS

In 1995, AMEX earned \$1.5 billion on a revenue base of \$15.8 billion, an increase of 11% in net income from the previous year. Despite this strong record of performance from continuing operations, the company may be at a strategic cross-road in defining future growth strategies. *The Nilson Report* (January 1996 issue) forecasts that the company could go from a market share of 23% in 1986 to 2% by the year 2005 in the area of global brand, general purpose, credit and debit cards.



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AMEX's recent activities suggest explicit strategies focused at addressing current weaknesses, namely:

- Aggressive expansion of acceptance
- Selected international market penetration
- Defensive protection of a weakening corporate/business segment
- Lifestyle trends away from its core prestige segment.

Board members are asked to consider the following issues in preparation for the discussion at the meeting:

- What is the magnitude of this competitive threat?
- Are pre-emptive actions appropriate, and if so, what types of action?
- Should management develop an explicit position on these types of market events?

NEXT STEPS

The Global Board members are asked to provide their views and comments on the above, including potential MasterCard responses, if any.

AMERICAN EXPRESS

U.S. Market

- Player in the U.S. T&E Category
- Profitability Driven by the Acceptance Relationships
- Upscale Corporate and Prestige Image
- Charge Card Business Slowing
- Shifting Profitability Streams from Charge Card to Credit Products - Optima (Co-Branding)
- Considering Multiple Distribution Channels



AMERICAN EXPRESS

Global Market

- Limited Distribution Capabilities
- Acceptance Deficiency
- Excellent Global Image and Potential Structure
- Focus on U.S. Past 3-4 Years
- Searching for New Alliances:
 - Acceptance
 - Issuing
 - ATM's
 - Franchising
- Travel Business and T&E Relationships Worldwide



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AMERICAN EXPRESS

Threats - Globally

- Excellent T&E Relationships
- Franchising to MasterCard Banks
- Improved Distribution
- Global Image/Awareness
- Tapping into MasterCard Credit Profitability
- Potential Global Contender



T&E COMPETITIVE STRATEGY

Co-op Campaign

- AMEX Dominates T&E Acceptance In U.S.
- T&E Players Prefer MasterCard Acceptance
 - Profitability
- AMEX Directly Competing In Category
 - Delta
 - Hilton
- Major T&E Players To:
 - Shift Share Away from AMEX
 - Compete Directly Versus Delta / Hilton
- Develop U.S. Competitive T&E Co-op Campaign



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AMERICAN EXPRESS

Competitive T&E Posture

- Attack Optima Directly in the U.S. Co-op T&E Campaigns
- Aggressively Target Heavy Spend Segment
- Educate MasterCard Membership of Amex Threats
- Limit Distribution Opportunities
- Prevent AMEX Resurgence — Immediately
- Benefit from AMEX Competitive T&E Posture
- Enlist Members/Partners Support for Co-op Campaigns



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